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ANNUAL REPORT

1955

R. J. REYNOLDS TOBACCO COMPANY

WINSTON-SALEM, NORTH CAROLINA

R. J. REYNOLDS TOBACCO COMPANY

ANNUAL REPORT

TO THE STOCKHOLDERS

1955

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Comparative Summary

	1955	1954
SALES, EARNINGS AND DIVIDENDS		
Net Sales	$866,425,772	$814,273,776
Net Earnings	53,267,637	44,826,793
Net Earnings as a percentage of Net Sales	6.15%	5.51%
Earnings per share on common stocks *before* taxes on income*	$ 11.85	$ 10.04
Taxes on income per share of common stocks*	6.80	5.85
Net Earnings per share on common stocks*	5.05	4.19
Dividends per share on common stocks	2.60	2.40
Dividends on Preferred Stock	2,794,023	2,894,413
Dividends on common stocks	25,737,186	23,731,853
FINANCIAL POSITION AND EQUITIES AT YEAR END		
Total Assets	$611,641,113	$617,635,877
Current Assets	566,734,981	574,025,535
Current Liabilities	121,438,965	144,872,480
Net Current Assets—Working Capital	445,296,016	429,153,055
Real Estate, Machinery and Equipment—net	41,486,151	40,259,587
Funded Debt	115,000,000	120,000,000
Equity of holders of Preferred Stock	70,686,500	73,377,500
Equity of holders of common stocks	304,515,648	279,385,897
Number of stockholders at year end	78,995	74,173
Number of regular employees at year end	12,011	11,540

* Based on 10,000,000 shares.

R. J. REYNOLDS
TOBACCO COMPANY

To the Stockholders:

The year 1955 was one of substantial achievement for the Company, with sales materially higher than in 1954 and net earnings attaining a new high of $53,267,637, or $8,440,844 greater than in 1954 when the previous high was reached.

On the basis of 10,000,000 shares of common stocks, the earnings per share, after deduction of dividends on the Preferred Stock, amounted to $5.05, compared with $4.19 in 1954.

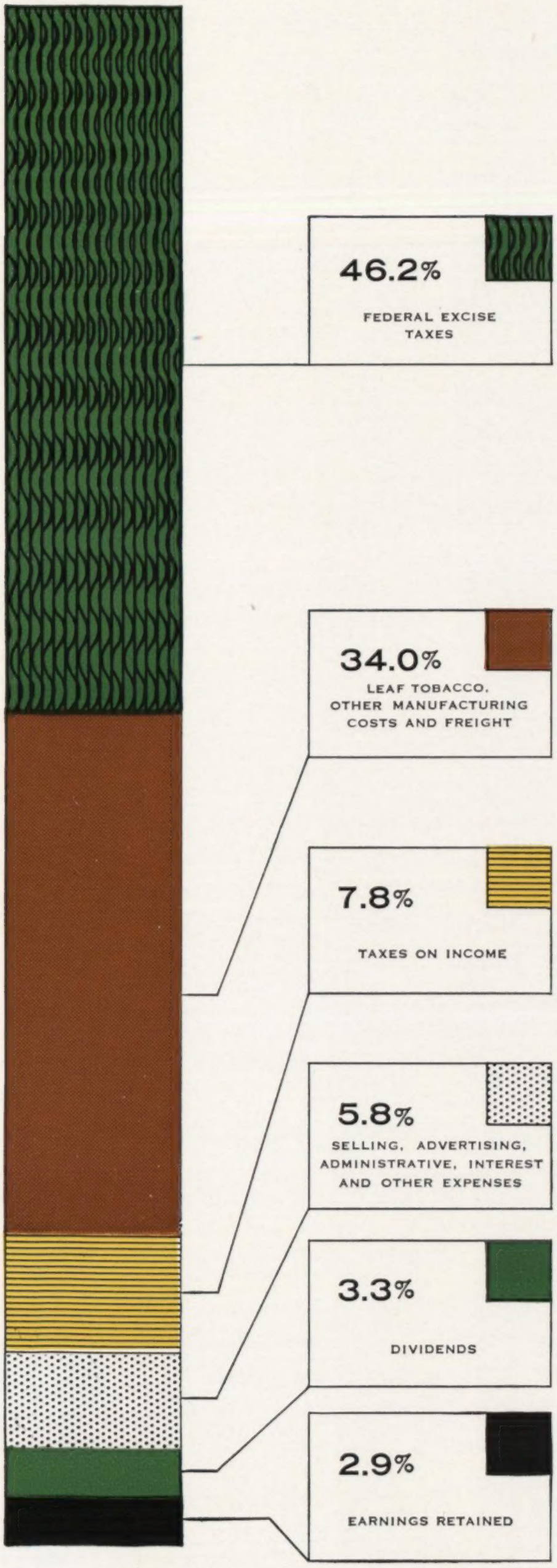
Earnings before Federal and state taxes on income also reached a new high, amounting to $121,268,223, an increase of $17,924,921 over the previous high attained in 1954.

Dividends Increased

Quarterly dividends paid on the common stocks during the last two quarters of the year were increased to 70 cents a share from the rate of 60 cents a share paid during the first two quarters. In 1954 the quarterly dividend rate was raised to 60 cents a share from the 50 cent rate that had been paid for some years.

Total dividends paid on the common stocks in 1955 were $2.60 per share, as against $2.40 in 1954. Dividends on the common stocks and the Preferred Stock amounted to $28,531,209, or 53.6% of net earnings. Dividends have been paid without interruption since 1900 on all shares of stock which have been outstanding.

Disposition of Income 1955



Sales Higher

Sales for the year were $866,425,772, an increase of $52,151,996, or 6.4%, over 1954. While the 1955 sales did not establish a new record, they were exceeded only in the years 1952 and 1953, by 1.7% and 1.1% respectively.

The Company's cigarette volume was substantially greater than in 1954. Although there was a reduction in CAMEL Cigarette shipments, this brand continued as the outstanding leader in the country. WINSTON Filter-Tip Cigarettes increased enormously in sales and now stand as one of the most popular of all cigarette brands.

In November, the new CAVALIER King-Size Cigarettes were placed on the market and the list price, subject to the 2% cash discount, was raised from $8.10 to $8.55 a thousand. Tests have shown that the new CAVALIER should have great appeal to smokers who prefer non-filtered, king-size cigarettes. Not only has the blend been improved but the package made much more eye-catching and attractive. During the relatively short time that this new cigarette was available in 1955, its sales were considerably higher than sales of the brand during the same period in 1954.

Although cigarettes account for by far the larger part of the Company's sales, smoking and chewing tobaccos have always been important parts of the Company's business. For many years, PRINCE ALBERT Smoking Tobacco and DAYS WORK Chewing Tobacco have been the largest selling brands in their respective fields.

A significant development in the cigarette industry in recent years has been the marked trend toward filter-tip cigarettes. In 1955, this type of cigarette accounted for about 20% of all cigarettes sold in the domestic market as against some 10% in 1954 and 3% in 1953. The Company's WINSTON brand, in the less than two years that it has been on the market, has become a most important factor. Although WINSTONS attained a substantial volume in 1954, shipments in 1955 increased over threefold.

Loading Camel Cigarettes for air shipment to Venezuela

During the year, the Company continued its aggressive and well-rounded promotional and sales programs. Television, radio, magazine, newspaper, outdoor posters and point-of-sale advertising were used. The TV programs sponsored by the Company include the "CAMEL News Caravan", "The Phil Silvers Show", "I've Got a Secret", "The Bob Cummings Show" and "Crusader".

Borrowings Reduced

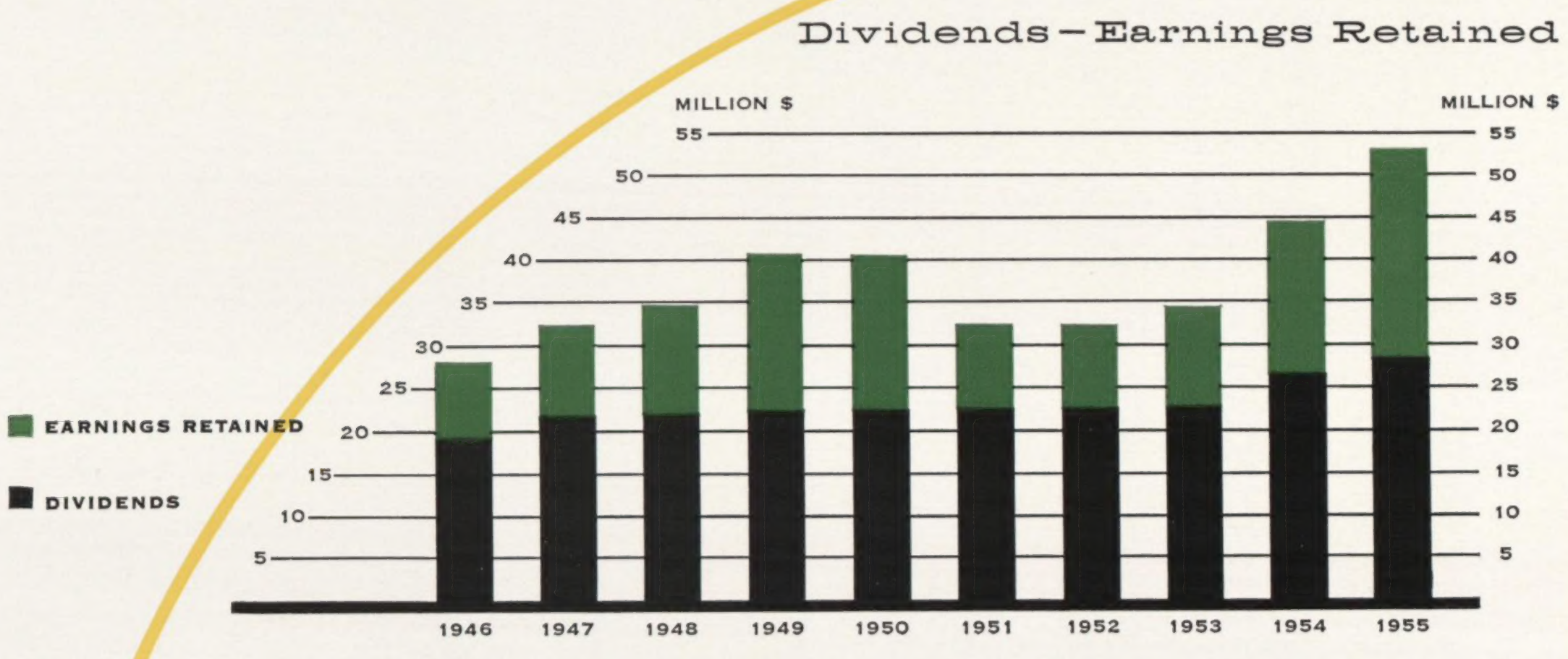
During the year, the funded or long-term debt was reduced by $5,000,000. At the close of the year, short-term borrowings stood at $38,000,000, a reduction of $31,000,000 from similar debt as of December 31, 1954.

The Company's five-year revolving credit agreement with sixteen depositary banks expired on June 30, 1955. Subsequent to that time, new short-term loans have been obtained either from banks or through the commercial paper market. Interest or discount expense for short-term borrowings was $741,302 in 1955 compared with $1,154,558 in 1954.

Reduction in short-term borrowings was made possible not only by additional retained earnings but also by lower inventories of leaf tobacco at the year end. Acquisitions of the various grades of the 1955 flue-cured tobacco crop were made at prices about in line with the prices of similar grades purchased from the 1954 crop. Although the 1955 Burley tobacco crop is still being sold, indications are that this crop will be sold at an average price higher than such price for the 1954 crop.

Further Additions to Manufacturing and Processing Facilities

In keeping with its policy of having adequate facilities of the most efficient and modern character, the Company in 1955 spent $5,573,648 for additions to its plant and equipment, the larger share of which was for new machinery for the manufacturing and leaf tobacco processing departments. With these additions, after making



adjustment for disposals, the gross real estate, machinery and equipment account at the year end amounted to $72,865,386. The charge to earnings for the year for depreciation and obsolescence was $4,171,320.

Prior Service Retirement Benefits Fully Funded

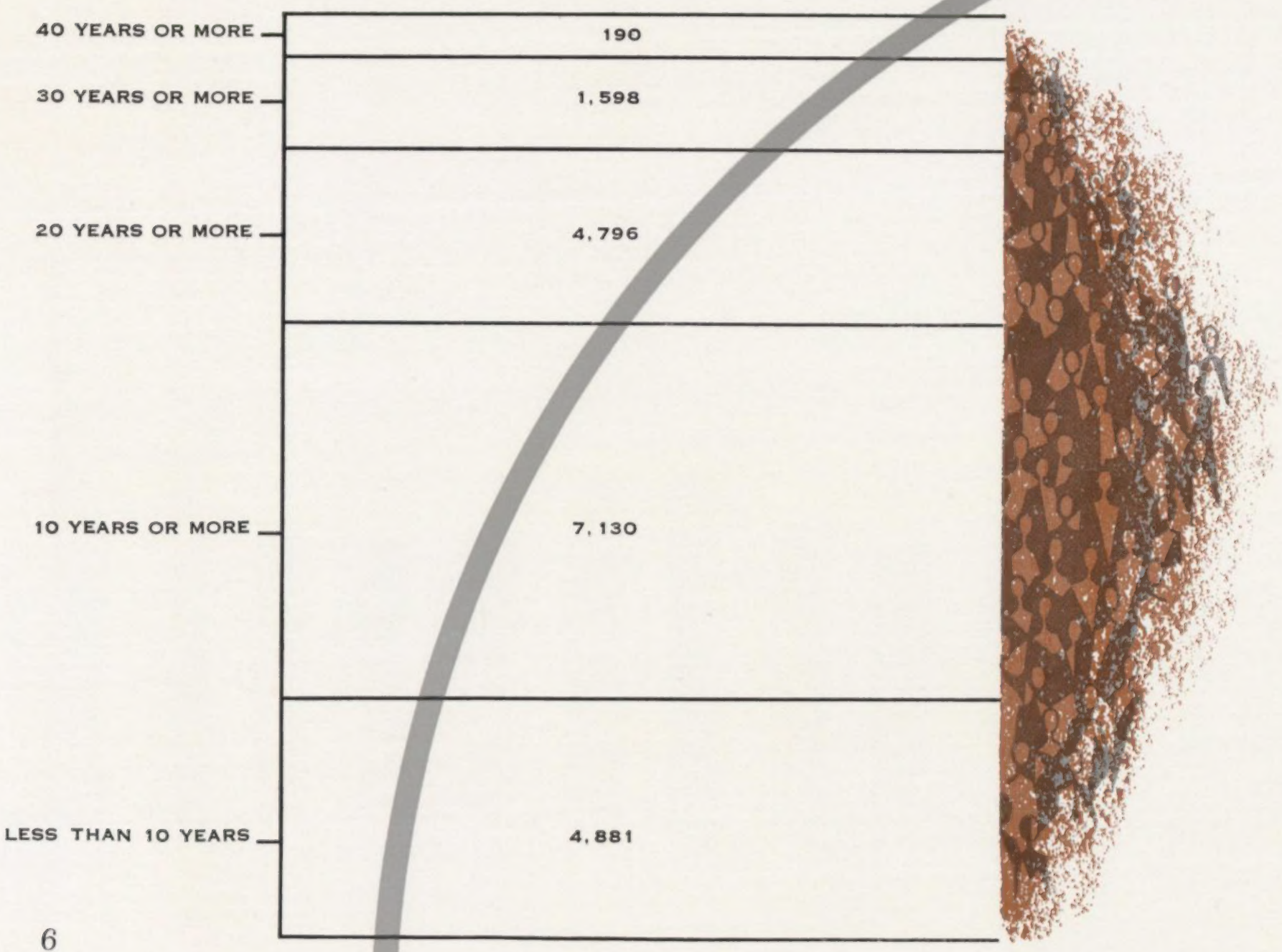
The Company's Employees' Retirement Plan was established in 1946, replacing an earlier retirement plan set up in 1929. Commencing with 1946, the Company has been funding the liability for prior service under the Plan at the annual rate of $1,061,420. In 1955, in addition to paying this amount into the Trust, as well as the cost for current service, the Company also paid during the final quarter of the year an additional $1,922,022, the balance payable under the Plan for prior service. While this amount was not deductible for income tax purposes in 1955, it will be deductible in future years. As the result of this payment, which was treated as an expense in computing the earnings for the year, all liability for prior service under the Plan has been fully funded.

Number of Regular Employees Increased

Due primarily to the greater cigarette volume, the Company's staff of regular employees was expanded. At the end of the year, the Company had on its rolls 12,011 regular employees, as against 11,540 at the close of 1954. Seasonal employees at the end of 1955 totaled 2,192.

Believing that maintenance of satisfactory relationships with employees very largely results from human understanding, consideration, encouragement and respect, the management has devoted a great deal of effort through the years to developing a satisfactory technique for communication with employees on a mutual basis. This involves careful training of supervisors in order to assure proper handling of personnel matters

Length of Service—Regular Employees



Company's products being transported across the desert in Egypt

and also informing employees through written and oral communications as to matters affecting them and the Company. During the past year, the Company's method of employee communication received national recognition by the American Management Association and the Employers' Labor Relations Information Committee.

In order that supervisory personnel may have the opportunity of developing their utmost usefulness to the Company, a new training program has been inaugurated. This program acquaints the supervisors with the functions, activities and problems in all branches of the Company's business in order to increase their skill in management.

The Suggestion Plan put into effect in 1954, under which employees below the supervisory level receive monetary awards for ideas submitted by them and adopted by the Company, has had very encouraging results. In 1955 there were 2,118 suggestions received, many of which were adopted and resulted in improved facilities and tangible savings for the share owners.

In very large measure, the year's achievements have been due to the enthusiastic cooperation of employees at all levels of responsibility. The Company's accomplishments testify to the outstanding interest, loyalty and efficiency of the thousands of men and women engaged in its daily operations.

Number of Stockholders Increased

Investment interest in the Company's shares in 1955 was evidenced by a substantial increase in the number of new shareholders, resulting in an all-time high in the number of holders of record. At the year's close, there were 69,042 holders of record of common stocks and 9,953 of Preferred Stock, a total of 78,995. The record holders of common stocks increased by 5,122 during the year.

Based on 10,000,000 shares of common stocks, the book value per share amounted to $30.45 at the end of 1955, an increase of $2.51 a share for the year.

The confidence and helpful interest of the share owners is most gratifying both to the management and to the thousands of employees associated with them in the conduct of the affairs of the Company.

Respectfully submitted for the Board of Directors,

Chairman Board of Directors

President

January 21, 1956.

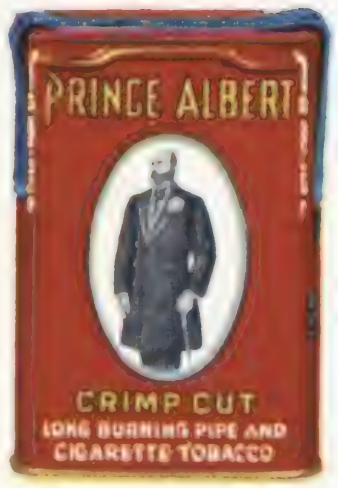
Products

CAMEL

WINSTON AND

CAVALIER

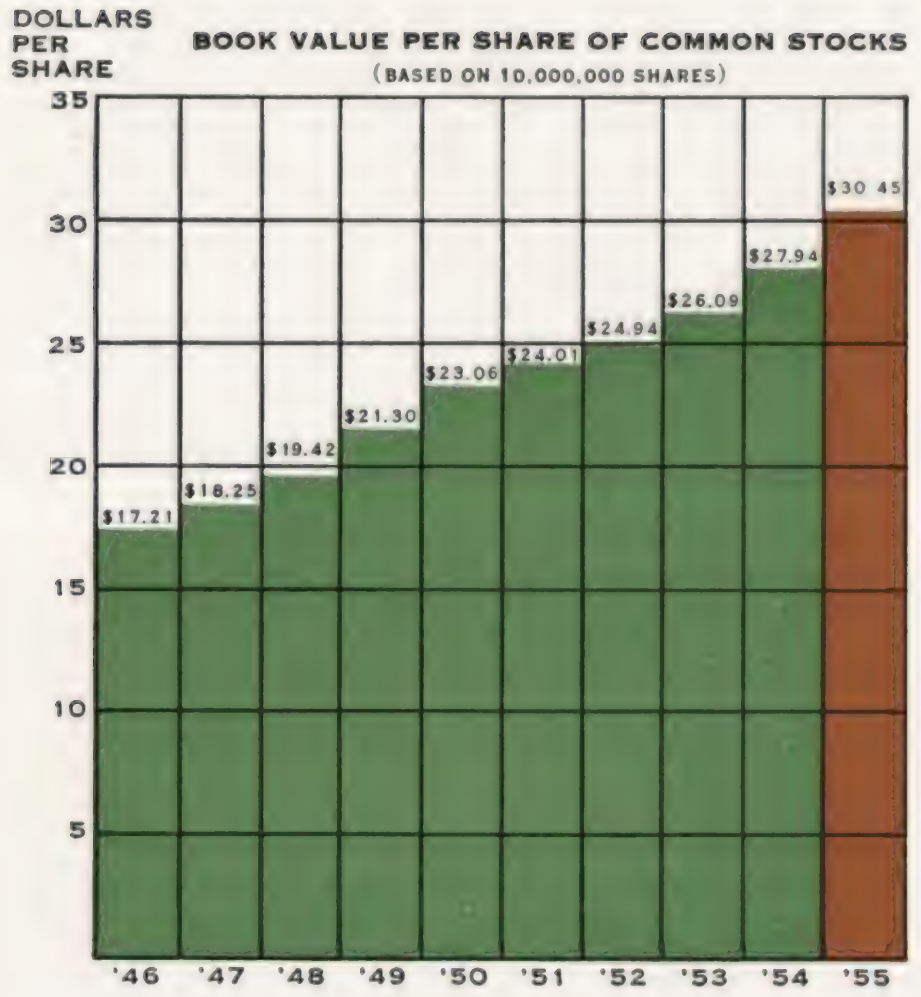
CIGARETTES

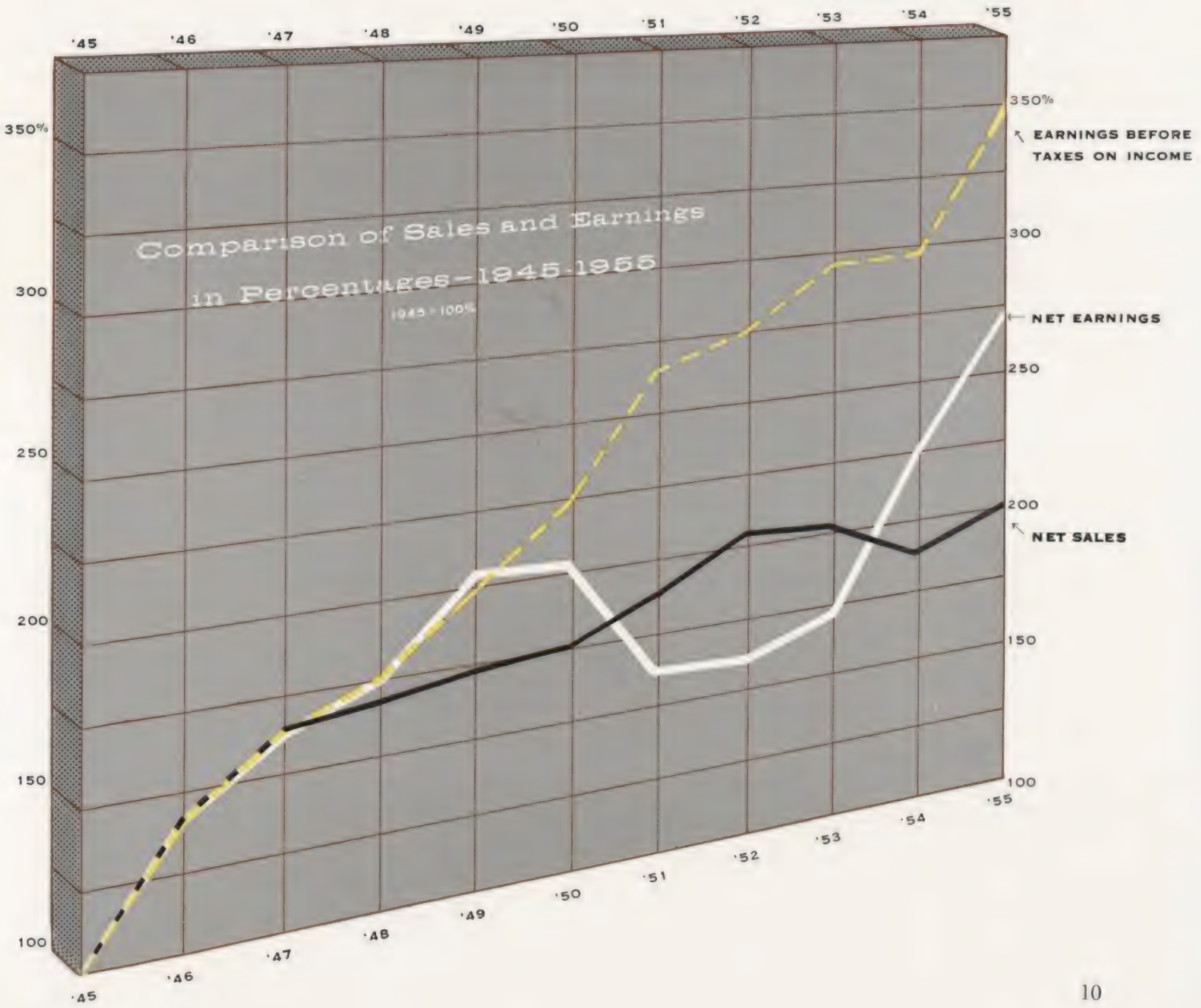


SMOKING TOBACCO

PRINCIPAL BRANDS OF CHEWING TOBACCO

The book value per share of the common stocks has increased each year as shown in this chart





5 year record

CONDENSED COMPARATIVE FINANCIAL DATA

R. J. REYNOLDS TOBACCO COMPANY

YEAR ENDED DECEMBER 31

	1955	1954	1953	1952	1951
SALES, EARNINGS AND DIVIDENDS (amounts in thousands of dollars)					
Net Sales	$866,426	$814,274	$876,189	$881,424	$814,217
Income before taxes	121,268	103,343	102,873	95,514	92,177
Federal and state taxes on income	68,000	58,516	68,701	63,565	60,060
Net Earnings	53,268	44,827	34,172	31,949	32,117
Dividends on Preferred Stock	2,794	2,894	2,934	2,934	2,934
Dividends on common stocks	25,737	23,732	19,756	19,723	19,715
FINANCIAL POSITION AND EQUITIES (amounts in thousands of dollars)					
Current Assets	$566,735	$574,025	$558,394	$553,200	$540,646
Federal and state tax liabilities	69,574	62,279	71,513	65,237	60,594
Other current liabilities	51,865	82,593	66,189	71,979	67,158
Working Capital	445,296	429,153	420,692	415,984	412,894
Real Estate, Machinery and Equipment—net	41,486	40,259	36,395	34,551	32,751
Total Assets	611,641	617,636	598,609	591,641	577,886
Funded Debt	115,000	120,000	125,000	130,000	135,000
Equity of holders of Preferred Stock	70,686	73,377	75,000	75,000	75,000
Equity of holders of common stocks	304,516	279,386	260,907	249,425	240,133
FINANCIAL STATISTICS					
Income taxes per share of common stocks*	$ 6.80	$ 5.85	$ 6.87	$ 6.35	$ 6.00
Earnings per share on common stocks*	5.05	4.19	3.12	2.90	2.92
Dividends per share on common stocks	2.60	2.40	2.00	2.00	2.00
Book value per share of common stocks*	30.45	27.94	26.09	24.94	24.01

*Based on 10,000,000 shares

R. J. REYNOLDS TOBACCO COMPANY

Financial Position

ASSETS	1955	1954
CURRENT ASSETS:		
Cash	$ 25,798,949	$ 23,562,202
Accounts receivable from customers (less discounts)	30,003,896	26,909,345
Leaf tobacco, supplies, manufactured products, etc.—at average cost	510,932,136	523,553,988
TOTAL CURRENT ASSETS	566,734,981	574,025,535
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	72,865,386	68,338,682
Less depreciation and obsolescence	31,379,235	28,079,095
NET REAL ESTATE, MACHINERY AND EQUIPMENT	41,486,151	40,259,587
OTHER ASSETS:		
Investments in non-competitive companies	225,000	225,000
Sundry receivables and deposits	1,623,506	1,497,715
Brands, trade-marks and good will	1	1
Prepaid expenses and deferred charges	1,571,474	1,628,039
TOTAL OTHER ASSETS	3,419,981	3,350,755
	$611,641,113	$617,635,877

December 31, 1955 with Comparative Figures for 1954

LIABILITIES

	1955	1954
CURRENT LIABILITIES:		
Accounts payable	$ 5,849,823	$ 5,510,466
Notes payable	38,000,000	69,000,000
Funded debt due within one year	5,000,000	5,000,000
Federal and state taxes (accrued and contingent)	69,574,253	62,279,308
Sundry accrued accounts	3,014,889	3,082,706
TOTAL CURRENT LIABILITIES	121,438,965	144,872,480
FUNDED DEBT (Note A):		
2½% Promissory Notes	62,000,000	66,000,000
3% Debentures, due 1973	53,000,000	54,000,000
TOTAL FUNDED DEBT	115,000,000	120,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100		
Authorized and issued 750,000 shares		
3.60% Series	49,000,000	49,000,000
4.50% Series	26,000,000	26,000,000
Common Stock—Par $10		
Authorized and issued.		
1955—395,770 shares	3,957,700	
1954—444,478 shares		4,444,780
New Class B Common Stock—Par $10 (Note B)		
Authorized 15,000,000 shares		
Issued, 1955—9,604,230 shares	96,042,300	
Issued, 1954—9,555,522 shares		95,555,220
	175,000,000	175,000,000
Earnings Retained for requirements of the business (Note C)	203,844,437	179,108,009
	378,844,437	354,108,009
Less cost of Preferred Stock, 3.60% Series, in Treasury (43,135 shares in 1955; 16,225 shares in 1954)	3,642,289	1,344,612
TOTAL CAPITAL AND EARNINGS RETAINED	375,202,148	352,763,397
	$611,641,113	$617,635,877

R. J. REYNOLDS TOBACCO COMPANY

Statement of Earnings

Year Ended December 31, 1955
—with Comparative Figures for 1954

	1955	1954
NET SALES	$866,425,772	$814,273,776
OTHER INCOME	15,067	2,383
TOTAL INCOME	866,440,839	814,276,159
LESS:		
Cost of goods sold, selling and general expenses, exclusive of items below	735,778,326	701,647,096
Provision for depreciation and obsolescence	4,171,320	3,411,950
Interest and debt expense	4,203,621	4,685,912
Provision for participation in Profits under Article XII of By-Laws, payable to 1,427 officers and employees for 1955 and 1,528 for 1954	1,019,349	1,187,899
Provision for Federal and state taxes on income	68,000,586	58,516,509
TOTAL INCOME DEDUCTIONS	813,173,202	769,449,366
NET EARNINGS FOR YEAR	$ 53,267,637	$ 44,826,793
Dividends paid on Preferred Stock	$ 2,794,023	$ 2,894,413
NET EARNINGS APPLICABLE TO COMMON STOCKS	$ 50,473,614	$ 41,932,380

Statement of Earnings Retained

Year Ended December 31, 1955
—with Comparative Figures for 1954

	1955	1954
EARNINGS RETAINED for requirements of the business—at beginning of year	$179,108,009	$160,907,482
ADD:		
Net Earnings for year	53,267,637	44,826,793
	232,375,646	205,734,275
DEDUCT:		
Cash dividends—		
Preferred Stock		
3.60% Series	1,624,023	1,724,413
4.50% Series	1,170,000	1,170,000
Common stocks at $2.60 per share for 1955 ($2.40 per share for 1954)	25,737,186	23,731,853
	28,531,209	26,626,266
EARNINGS RETAINED for requirements of the business—at end of year (Note C)	$203,844,437	$179,108,009

NOTES TO FINANCIAL STATEMENTS—DECEMBER 31, 1955

NOTE A: The principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1956-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

NOTE B: Of the authorized but unissued shares of New Class B Common Stock, 395,770 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,604,230 shares of issued New Class B Common Stock, 98,942½ shares are held for exchange pursuant to said Exchange Option to Holders of Common Stock.

NOTE C: The 2½% Promissory Notes and the Indenture under which the 3% Debentures are issued contain certain restrictions as to the declaration of dividends (other than stock dividends) on the common stocks of the Company and as to the purchase, redemption or retirement of shares of its stock. At December 31, 1955, the part of Earnings Retained not affected by these restrictions was $152,194,879.

Report of Independent Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY,
ITS DIRECTORS AND STOCKHOLDERS:

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1955, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1955, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants

Winston-Salem, N. C.

January 20, 1956

R. J. REYNOLDS TOBACCO COMPANY

BOARD OF DIRECTORS

JOHN C. WHITAKER	*Chairman of Board of Directors and Chairman of Executive Committee*
E. A. DARR	*President*
BOWMAN GRAY	*Executive Vice President*
H. N. HARDY	*Vice President*
H. S. KIRK	*Vice President*
W. J. CONRAD	*Vice President and Secretary*
A. H. GALLOWAY	*Vice President and Treasurer*
W. T. SMITHER	*Manager Advertising Department*
R. G. VALLANDINGHAM	*Superintendent of Leaf Buying*
H. H. RAMM	*General Counsel*
S. M. SCOTT	*Comptroller*
S. B. HANES, JR.	*Superintendent of Leaf Processing*
WILLIAM R. LYBROOK	*Associate Counsel*
KENNETH H. HOOVER	*Director of Research*
ROBERT M. HANES	*President, Wachovia Bank and Trust Company*
CHAS. B. WADE, JR.	*Personnel Manager*

REGISTRAR

The Hanover Bank
70 Broadway,
New York 15, N. Y.

TRANSFER AGENTS

The Chase Manhattan Bank
11 Broad Street,
New York 15, N. Y.

The First National Bank
of Jersey City
1 Exchange Place,
Jersey City 3, N. J.

R J R

R. J. REYNOLDS TOBACCO COMPANY